STATE OF MONTANA

WESTERN MONTANA COLLEGE

REPORT ON EXAMINATION OF FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 1973

OFFICE OF THE LEGISLATIVE AUDITOR
STATE OF MONTANA
STATE CAPITOL • HELENA

Date Due

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Western Montana College. Report on
examination of financial statements,
fiscal year ended June 30, 1973.

STATE OF MONTANA

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

BOARD OF REGENTS OF HIGHER EDUCATION

Honorable Thomas L. Judge, Governor*

Honorable Dolores Colburg, Superintendent of Public Instruction*

Dr. Lawrence K. Pettit, Commissioner of Higher Education, Secretary

John D. French	Ronan	1975
Lewy Evans, Jr.	Billings	1976
T. T. Heberly	Havre	1977
Mrs. Mary Pace, Vice Chairman	Bozeman	1978
Ted James, Chairman	Great Falls	1979
Gary Gallagher	Missoula	1980
Student Representative	Position Vacant	

*ex officio members

WESTERN MONTANA COLLEGE

LOCAL EXECUTIVE BOARD

Frank M. Davis	April, 1975
James W. Flynn	April, 1976
Carl M. Davis	April, 1977

ADMINISTRATION

Dr. James E. Short	President
Harding Hanson	Business Manager

SUMMARY OF RECOMMENDATIONS

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MORRIS L. BRUSETT, C.P.A.
LEGISLATIVE AUDITOR

JOSEPH J. CALNAN, CIA
DEPUTY LEGISLATIVE AUDITOR

STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59601
406/449-3122

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the balance sheet of the Western Montana College as of June 30, 1973, and related statements of operation as listed in the table of contents of this report for the year then ended. Our examination was made in accordance with generally accepted auditing standards and with the audit requirements set forth in the applicable audit guides issued by the Department of Health, Education and Welfare for audits of National Defense Student Loan Funds, Economic Opportunity Grants, and College Work Study Programs, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances, except as indicated in the following paragraphs.

Our tests of historical costs relating to investment in physical plant and fixed assets were limited to a review of activity for the year ended June 30, 1973, and did not include a review of balances accumulated prior to fiscal year 1972-73. Accordingly, we do not express an opinion as to the investment in these assets. However, in our tests of current year transactions we noted that the college does not delete from its records items which are no longer in its possession, and no physical inventory has been taken within the last 12 years to provide assurance that the fixed assets reported are actually in its possession. The amounts by which the financial statements would change

if fixed assets were properly accounted for cannot practicably be determined by us.

The college did not report accounts receivable at June 30, 1973, and the dollar amounts of these assets cannot be determined. Accounts payable and accrued expenses were not reported by the college at June 30, 1973. The amounts of these liabilities cannot practicably be determined by us. The college's failure to report these assets and liabilities in its financial statements is at variance with generally accepted accounting principles.

The college did not present a statement of changes in fund balances or a statement of current funds revenues, expenditures, and other changes, as required by generally accepted reporting standards for colleges and universities.

Accounting policies used by the college are not disclosed in the financial statements or in notes thereto. Additional deficiencies in reporting disclosure are described on page 19 of the accompanying report.

In our opinion, except for the effect of the matters referred to in the preceding paragraphs, the aforementioned financial statements present fairly the financial position of Western Montana College at June 30, 1973, and the results of its operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

COMMENTS

GENERAL

Western Montana College was established at Dillon by the Third Legislative Assembly in 1893. It was initially called the State Normal School at Dillon, and in 1965 the name was changed through legislation to Western Montana College. The college has been primarily oriented since its inception toward the training and education of elementary and secondary teaching personnel. Initially, the college offered a basic two-year program in education. In 1931, the State Board of Education approved a four-year course and a Bachelor of Education degree. Since that time, additional degrees have been authorized, including Bachelor of Science in Secondary Education, Master of Science in Education, Bachelor of Arts in History and English, and Associate of Arts and Science degrees.

The college is under the general control and supervision of the eight-member Board of Regents of Higher Education. A local three-member executive board is appointed by the governor; however, this board is only advisory in nature.

The original campus is located on ten acres of land which were deeded to the college by Philip H. Poindexter and William C. and Rachel Orr in December, 1894. The ground was deeded "in Trust for the use and benefit of the State Normal School of the State of Montana." Most of the college buildings are located on the original ten acres, but the college has since purchased property which increased the total property ownership to 34 acres.

The primary sources of revenue to operate the college come from the state's General Fund and University Millage accounts. Revenue is also generated from student fees, land grant income, and auxiliary enterprise operations. The nature and extent of the revenue from these various sources are depicted in the exhibits which are presented in the style and format unique to higher education. The following summarizes state appropriations during recent years:

WESTERN MONTANA COLLEGE
FUNDING OF EXPENDITURES
June 30, 1973

Year	General Fund	Student Fees	Millage
1966	$289,718	$179,301	$224,325
1967	298,451	199,629	274,347
1968	550,821	188,128	219,796
1969	655,075	229,953	235,445
1970	680,000	245,507	278,752
1971	735,000	236,157	265,000
1972	713,640	280,160	280,000
1973	713,640	231,882	290,000
1974	805,263	175,194	257,331

The college is one of the smaller units of the six-unit university system in terms of expenditures, faculty, and student enrollment. The faculty consisted of 45 members during fiscal year 1972-73. Recent student enrollment trends are as follows:

Fiscal Year	Full Time Equivalent Student Enrollment
1973-74	721
1972-73	931
1971-72	1,086
1970-71	1,224
1969-70	1,252
1968-69	1,145
1967-68	1,055
1966-67	1,022

CONSTITUTIONAL STATUS

Throughout our examination of the various units of the university system the question of university autonomy has arisen. Basically, the question of autonomy pertains to the extent to which the units of the university system are subject to the actions of the legislative assembly.

Prior to July 1, 1973, Article XI, Section 11, Constitution of Montana, provided in part:

> "The general control and supervision of the state university and the various other state educational institutions shall be vested in a state board of education, whose powers and duties shall be prescribed and regulated by law."

Pursuant to this provision and court decisions interpreting it, there was no question that the legislature could exercise complete control over the university system. The legislature has exercised final authority over the supervision, coordination and management of the system in the past through legislative enactments in the area of budgeting requirements, appropriation measures, personnel benefits, etc.

On July 1, 1973, Montana's new constitution became effective, replacing in its entirety the prior constitutional provisions relating to the control of the university system. The Constitution of Montana now provides in Article X, Section 9(2)(a), that:

> "The government and control of the Montana university system is vested in a board of regents of higher education which shall have full power, responsibility, and authority to supervise, coordinate, manage and control the Montana university system and shall supervise and coordinate other public educational institutions assigned by law."

In contrast to the foregoing constitutional provision, Article VIII, Section 12, of the Constitution, requires that:

> "The legislature shall by law insure strict accountability of all revenue received and money spent by the state. . . ."

Pursuant to the foregoing constitutional provisions, the Board of Regents have certain authority and responsibility over the university system and the legislature has certain authority and responsibility over the revenue and expenditures of state agencies. The issue is whether the legislature, by statutory enactment, may regulate deposit of university revenues, expenditure of university funds, travel expenses, employee benefits, accounting system, property management, and other matters relating to the operation of the university system. This issue has not been resolved and has been a matter of controversy.

Ordinarily, the audits which we perform focus on several aspects of an agency's operation, including agency compliance with relevant laws. In the case of the university system, however, the relevancy of the laws is unclear. Consequently, we have requested an opinion from the Attorney General seeking clarification as to whether the university must presently comply with laws from which they are not specifically exempted.

COLLEGE ACCOUNTING AND THE STATEWIDE BUDGETING AND ACCOUNTING SYSTEM

The Department of Administration has developed the Statewide Budgeting and Accounting System (SBAS) which is presently the required accounting system for all state agencies except the university system. The Department of Administration exempted the university system from exclusive use of the SBAS because it could not provide financial information and reports in accordance with the fund accounting system desired by the university units. Consequently, some of the college's financial transactions presently are recorded in two accounting systems, the SBAS and the college's own accounting system.

Moneys at the university units are generally categorized as either "state" money or "local" money. In practice, "state" moneys consist of the moneys traditionally deposited in the state treasury and appropriated by the legislative assembly from sources such as the General Fund and Earmarked Revenue Fund. In contrast, "local" moneys consist of all other moneys available for use by the university units from a number of sources, such as interest income, reimbursements of costs, the incidental sale of goods and services, and auxiliary enterprises. The two major differences between state and local moneys are that (1) state moneys are deposited or at least pass through the state treasury whereas local moneys do not, and (2) state moneys are correlated with a legislative appropriation whereas local moneys are not. These differences are evidently not the result of a deliberate legislative or executive plan or design, but rather appear to be the result of years of tradition unique to the university system. Consequently, some moneys pass through the state treasury and are appropriated, while other moneys are neither deposited in the state treasury nor appropriated.

Basically, only transactions involving state moneys are recorded in SBAS. Transactions involving local moneys are not recorded in SBAS. All of the college's financial transactions are recorded in the college's accounting system. Essentially then the college's system provides full reporting

but only about one-half of the college's financial activity is reported in SBAS. During fiscal year 1972-73 expenditures reported in the college's accounting system were about $2,250,000 while the expenditures reported in SBAS were about $1,408,000 or approximately 60 per cent of the actual total expenditures.

Generally, accounting systems are intended to provide management and other interested parties with accurate, relevant, and timely information for decision-making purposes. Because different types of organizations and different managers need different types of information, not all accounting systems are, or should be, the same. However, over the years a set of generally accepted accounting principles has been developed and is used by most businesses. Similarly, to meet the special needs of governmental organizations, a set of generally accepted accounting principles for governmental organizations has been developed and is generally followed by most governmental units in the United States. Due to variety of funding sources available to universities and outside limitations imposed on the use of some funds, present accounting needs of universities vary somewhat from the needs of other governmental organizations. The American Council on Education (ACE) has developed and recommended a fund accounting system for colleges and universities (College and University Business Administration, 1968). In addition, the American Institute of Certified Public Accountants (AICPA) has recommended that a fund accounting system substantially the same as that recommended by the ACE be implemented by colleges and universities for fiscal years beginning after June 30, 1973, (Audits of Colleges and Universities). Many colleges and universities had already implemented the system recommended by the ACE and the AICPA recommendation will probably result in near universal use of its system. The accounting system used by the college was intended to conform with the fund accounting system recommended by ACE.

SBAS was not developed specifically for universities and consequently, is not the same as the accounting system recommended by the ACE or the AICPA. In addition, SBAS does not presently have the capability to provide information of the type or in the format recommended for colleges and universities and desired by the state university system. However, this does not mean that SBAS could not be modified or a sub-system designed to accommodate the university and college needs. Recently the staff director for the Commission on Post-econdary Education requested comments from the Department of Administration and the Commissioner of Higher Education regarding SBAS utilization by the university system. One of the conclusions in the Department of Administration's response was that SBAS is comprehensive and flexible enough to accommodate most of the university's needs with slight modifications, and that new sub-systems could be designed to meet specific university requirements whenever the basic system cannot readily provide the needed information.

Another factor bearing on the accounting system used by the university system is the question of university autonomy (see discussion on page 5). If it is determined that the university system must comply with state fiscal laws and regulations, all moneys will have to be deposited in the state treasury pursuant to Sections 79-201, 306, and 601, R.C.M. 1947. As practical matter, deposit of all university moneys in the state treasury would automatically place the university system on SBAS. If SBAS were not modified to provide information in the method desired by the universities, they would probably retain their existing accounting systems, and thus enlarge the existing duplication.

There appears to be no reason why SBAS could not be modified or expanded to meet the needs of the university system. On the other hand, there appears to be no reason why the university's accounting system, maintained outside SBAS, could not be modified to satisfy legislative needs. Maintenance of

two independent systems appears to be an unnecessary duplication, and the question of whether the university system's accounting records should be maintained within or outside SBAS needs to be resolved. Regardless of whether or not SBAS is used, the accounting system used must provide accurate, relevant, and timely information to both the legislature and the university system.

The problem is further complicated at the college because of the fact that the college accounting system is basically a semi-automated rather than automated system. As budgetary and legislative information needs increase, the semi-manual system becomes increasingly inadequate. Consequently, the college is faced with a need for greater automation of its accounting system. A similar need faces Northern Montana College and will eventually face the community colleges, particularly as they become more involved with the system of higher education in the state. These needs, combined with eventual full implementation of the ACE and AICPA requirements, would seem to dictate greater use of a central automated system either within the university system itself or within SBAS. These factors, combined with the fact that the Department of Administration believes that SBAS can meet the accounting needs of the university units, would seem to make it appropriate that a pilot system be explored.

The Department of Administration and the college should confer to design an accounting system for the college within SBAS. An effort such as this would definitize the problems and resolve the question as to whether SBAS can provide the services required by the university system.

RECOMMENDATION

We recommend that the college consult with the Department of Administration in order to devise an accounting system for the college within the Statewide Accounting and Budgeting System.

INVESTMENT OF COLLEGE FUNDS

The investment program of the college is ineffective. A large amount of money is uninvested, and the investments made are mediocre insofar as interest return is concerned. The college has not used the investment services of the State Board of Investments, but rather has carried out its own investment program.

Investments at the college are made by the business office. During fiscal year 1972-73, the college's investments consisted of a $40,000 certificate of deposit yielding interest of 5 percent and $17,000 in savings deposits yielding 4-1/2 percent interest. Also, during the year, average cash balances in excess of $200,000 were held by the college in local checking accounts.

The college has not used the services of the State Board of Investments even though since July, 1973, various constitutional and statutory provisions require that the college investment program be operated by the State Board of Investments. Article X, Section 10 of the Constitution of the State of Montana, provides that the various funds of the Montana university system <u>shall</u> be invested under such regulations as may be provided by law. Another requirement of the Constitution, Article VIII, Section 13, is that the legislature shall provide for a unified investment program for public funds. Included in this section are specific provisions as to how the public school funds, the permanent funds of the Montana university system, and all other state institutions of learning shall be safely and conservatively invested.

Pursuant to the constitutional provisions, Section 82A-204, R.C.M. 1947, stipulates that "The board of investments has the sole authority to invest state funds. No other agency may invest state funds." In this connection, Section 79-309, R.C.M. 1947, provides authority for the Board of Investments to establish and operate a pooled investment program encompassing the moneys of the college and other university units.

In accordance with the foregoing constitutional and statutory provisions, the board of investments established a short-term investment pool. This investment pool commenced operation on July 1, 1973, and has produced investment returns significantly larger than those realized by the college. Initially the investment return on the pooled investments averaged 11 percent. In November, 1973, the average rate was 8-3/4 percent and, at the present time, the interest rate on the short-term investment pool is averaging about 9-1/2 percent.

Irrespective of the constitutional and statutory provisions requiring that college investments be handled by the Board of Investments, the Board of Investments can offer the college higher investment returns and full-time investment expertise much greater than that presently utilized by the college. In this regard, the Board of Regents (Board item 1-001-R0773, July 9, 1973) have endorsed the services of the Board of Investments.

RECOMMENDATION

We recommend that the college consult with the state Board of Investments to establish an investment program for the college.

CONTROL OVER CASH

Inasmuch as the college collects money from numerous sources as a part of its routine operation, the handling of checks, coins, and currency is a common process. There are several areas where procedural changes are warranted to strengthen control over cash.

Cash On Hand

The business office maintains cash on hand of $2,000 to $3,000 to cash checks presented by students and employees. The records underlying this cash included reconciliations which showed that part of the cash on hand was temorarily loaned to employees of the college. The loans were secured by employee personal checks which the business office held until the money was repaid.

On June 30, 1973, we noted employees' personal checks amounting to $740 being held by the cashier. The college does not have legal authority to loan money in this manner, and this practice weakens control over cash. Loans should not be made to individuals from this cash source, and checks presented by students and employees should be deposited as soon as practicable.

RECOMMENDATION

We recommend that the college discontinue the practice of making temporary loans to employees from cash on hand and deposit all checks as soon as practicable.

Returned Checks

The college cash receipts book shows that 57 checks were returned by banks to the college during fiscal year ended June 30, 1973 because of

non-sufficient funds. Checks returned by banks due to non-sufficient funds are not recognized nor accounted for in the college accounting records.

Accounts receivable should be established in the accounting records when checks are returned by banks and maintained until such time as collection or other disposition of the returned checks is made. The accounts receivable should include not only the amount of the returned check but the assessed penalty fee as well.

RECOMMENDATION

We recommend that the college establish accounts receivable records to account for and control checks returned by banks.

Collateral Pledged by Depositories

Section 79-301, R.C.M. 1947, requires that banks receiving public moneys for deposit pledge securities as collateral in an amount in excess of the amount of the deposits. The purpose of this provision is to insure the state against potential loss of deposited moneys.

We noted several instances when the collateral pledged as security was insufficient to meet the required amounts in two of the local checking accounts. The deficiencies ranged to $82,000 in the larger checking account and $25,000 in the smaller checking account. The larger account was deficient 99 days during fiscal year 1972-73. In addition to these accounts, the college had a certificate of deposit which was also deficient of pledged collateral as required by the above statutory provision.

Ordinarily the responsibility of insuring that state moneys in banks are properly collateralized is carried out by the state treasurer. In the case of the college, however, the state treasurer is unaware of the amount of money deposited in the bank by the college. As mentioned previously,

the college maintains local moneys in a local bank account. This account is outside the purview of the state treasurer; consequently, the state treasurer has no routine means of determining the amount of money on deposit or the extent to which it is collateralized.

The statutory requirement for collateralization pertains to all public moneys. Accordingly, the college should establish procedures to insure that its deposits are properly collateralized.

RECOMMENDATION

We recommend that the college establish procedures to insure that the college deposits in local bank accounts are properly collateralized as required by Section 79-301, R.C.M. 1947.

Deferred Student Fees

In September 1972, the Board of Regents established (Board item 3-004-R1273) a policy allowing the university units to defer the payment of student fees. The policy is intended to allow students to pay their fees over an extended period rather than all at once, as was previously the custom.

The policy stipulates that (a) at least one-third (1/3) of the total fee is paid at the time of enrollment, and (b) another one-third (1/3) is to be paid within 30 days, with the final one-third (1/3) to be paid within 60 days of enrollment. There are a number of areas where weaknesses exist in the implementation of this policy by the college.

Deferred Payment Service Charges

The Board of Regents policy allowing the college to defer fees (Board item 3-004-R1273) states that "an administrative charge shall be levied in an amount of $5 per quarter." The college has been assessing the charge in accordance with the board item, but the moneys generated have not been trans-

ferred to the state treasury. Although the student fees themselves are deposited in the state treasury, the associated service charges are not, but rather money derived from the service charges is held in a local bank account.

Inasmuch as the money from these service charges is derived from student fees, it should also be transferred to the student fee account in the state treasury and expended through legislative appropriation.

RECOMMENDATION

We recommend that the college deposit revenue generated from deferred payment services charges in the student fee account in the state treasury.

Deferred Fee Collections

The policy established by the Board of Regents expressly stipulates that the full amount of the deferred fees is to be paid within 60 days of the date of enrollment. This being the case, theoretically all deferred fees should be collected by the end of each academic quarter.

The college has not complied with the collection policy. On June 30, 1973, $5,571 in deferred student fees remained uncollected, even though the 60-day time period had elapsed.

Business office personnel advised us that the $5,571 in deferred fees were not collected because some students did not have sufficient money to make the time payments as stipulated by the board policy. Consequently, the college deferred collection of the fees an additional period of time.

The deferred fee collection policy was established for the convenience of the students. In those instances where students do not have the resources to pay their fees, deferred or otherwise, the business office should refer the students to the financial aids office. The financial aids office should

evaluate the student's financial needs and seek to provide financial aid under an appropriate student aid program. The college has student aid programs available, such as federal grants, federal funded loans, and a short-term college loan. With these resources available, the college should not defer student fees in excess of the time frame established by the Board of Regents.

RECOMMENDATION

We recommend that the college:

1. *Discontinue deferring student fee collections for periods in excess of Board of Regents policy.*
2. *Refer students who are unable to make deferred payments to the financial aids office.*

Accounts Receivable

Although the college defers the collection of student fees, the fact that fees have been deferred is not recognized in the college accounting system. The college does not have accounts receivable recorded in the accounting records for the $16,859 of student fees deferred at June 30, 1973. In fact, the college has no control records over the amount of student fees which have been deferred.

We were advised by business office personnel that some students owed the college moneys for past student fees. We were also advised that the college did not have a control record showing the total amount. We noted that the college financial records did not reflect accounts receivable in this area. Because of this, we requested the business office to provide us with a figure representing the unreported accounts receivable on June 30, 1973. As a result, we were informed that the amount not reflected on June 30 was $16,859. Because of the lack of control, we were unable to verify the validity of this figure.

RECOMMENDATION

We recommend that the college:

1. *Establish acceptable accounting control over accounts receivable.*
2. *Reflect accounts receivable on the financial statements.*

ACCOUNTING AND REPORTING PROCEDURES

Accounting and reporting procedures govern the manner in which the financial transactions of the college are recorded and depicted in the financial records of the college. The procedures consist of the various techniques, formats, and systems used to record financial transactions. In the case of the college, as well as other university units, they are based upon generally accepted accounting practices and the general and specific guidance provided by two documents, College and University Business Administration (CUBA) published by the American Council on Education, and Audits of Colleges and Universities (AICPA Guide) published by the American Institute of Certified Public Accountants.

Based upon the foregoing documents and other criteria, there are a number of areas where changes in the college's accounting procedures are warranted.

Financial Statement Disclosure

The financial statements prepared by the college at June 30, 1973, and included at the back of this report, are inadequate. They do not meet the criteria specified by CUBA and the AICPA guide and, in a number of instances, contradict generally accepted accounting practices and reporting standards. These deficiencies are summarized below in four categories.

I. The basic financial statements for colleges and universities are the balance sheet, statement of changes in fund balances, and statement of current funds revenues, experditures, and other changes.

   The college calls its statement of Current Funds Revenue, etc., "Summary of Operations," and this statement does not follow reporting guidelines.

The college has no statement of changes in fund balance. Such a statement should be presented in columnar format and should separately disclose transfers between funds.

II. Generally accepted reporting standards require disclosure of significant accounting policies. The college's financial statements do not provide such a description.

Examples of practices and policies which should be disclosed are timing of income and expense recognition, valuation of property, and valuation reserves for loans.

III. The following should be accounted for in accordance with generally accepted accounting principles but are not.

A. Accounts payable are not reported on the balance sheet.

B. Most of a summer school session is held after June 30. Because of this, the tuition income and related expenses should be deferred to the subsequent year. The college does not report deferred income or expenses.

C. Restricted income is not reported separately from unrestricted income. Similarly, restricted assets and restricted portions of fund balances are not reported. A specific example of this is the portion of the student loan fund refundable to the U. S. Government in the National Direct Student Loan program.

D. Daily transactions for agency accounts such as the student year-book and newspaper, student activity funds, etc., are not part of the school's operations and should not be reported as college transactions in the financial statements.

Balances handled by the college for agency accounts such as bookstore assets should be identified as agency assets and shown in the college financial statements.

E. Accounts receivable are not recorded in the financial statements.

F. The library books should be separately reported in the college financial statements instead of being included with equipment, and land should be shown separately from buildings. The financial statements should disclose the fact that the State Department of Lands holds title to lands which produce substantial income to the college.

IV. Other factors which should be disclosed:

A. Primary financial statements (the balance sheet, statement of changes in fund balances, etc.) should be segregated from supplementary information and each should be appropriately identified.

B. The school's retirement plan and the school's commitment to the plan should be described fully in notes to financial statements.

C. Any major commitments, contingent liabilities and long-term debt repayment schedules should be described in detail as notes to the financial statements.

D. Additionally, the following should be disclosed regarding long-term debt:

1. Interest rate
2. Due dates of installments
3. Pledged property and pledged revenue

4. Reserve requirements

5. Non-compliance with bond indenture, if appropriate.

Each of the foregoing deficiencies represents departures from generally accepted practices and procedures and, in some instances, are of sufficient magnitude to warrant a certified public accountant's opinion other than unqualified. Consequently, the opinion as to the adequacy of the financial statements expressed at the front of this report is appropriately modified.

The college should revise its accounting and reporting as necessary to conform to the provision of CUBA and the AICPA guide.

RECOMMENDATION

We recommend that the college revise its accounting and reporting practices in accordance with guidelines prescribed by the College and University Business Administration manual and the AICPA guide for Audits of Colleges and Universities.

Internal Control at the Bookstore

Internal control over cash and merchandise in the college bookstore is virtually non-existent. The college did not maintain cash register tapes for fiscal year 1972-73 and does not maintain perpetual inventory records with respect to the bookstore. Periodic physical inventories had been taken but the college has not used them. We were advised by business office personnel that these inventories are not used because they are considered to be inaccurate. Because accurate inventory records are not maintained and cash register tapes retained, the college does not have accountability over the bookstore. Accordingly, we cannot verify that all cash received was properly deposited and all merchandise was properly sold.

RECOMMENDATION

We recommend that the college institute the procedures necessary to establish accountability over the activities of the bookstore to safeguard the assets.

Interest Income

During fiscal year 1972-73, the college purchased a $40,000 certificate of deposit from funds generated from the textbook library and funds generated from interest on a certificate of deposit that had been cashed. The college recorded the transaction as an expenditure of $36,473 to the textbook account and a transfer to CD of $3,527. As an offsetting entry, they credited revenue of the college for $40,000. Handling the transaction in this manner was improper and resulted in overstatements of $40,000 to both the college revenue and expenditures on the financial statements.

We were advised by business office personnel that the transactions were recorded in this manner to facilitate subsequent tracing of where the funds came from. The investment of cash on hand in a certificate of deposit is not an income or an expenditure to the college. Rather, it is a change in the nature of an asset, i.e., from cash to an investment.

RECOMMENDATION

We recommend that the college record investment transactions in accordance with generally accepted accounting principles.

Miscoding of Expenditures

The college does not reconcile their records of expenditures by object class with SBAS' monthly and annual reports. The object classifications used by the college differ from SBAS. For example, payroll benefits paid

by the college are classified as operating expenses by the college. SBAS classified the expenditures for payroll benefits as personal services. During fiscal year 1972-73, $98,000 of payroll benefits was miscoded by the college. Since the college does not reconcile their expenditures with SBAS, the incorrect classifications were undetected and were inaccurately reflected in the financial statements prepared by the college.

We were advised by college personnel that they do not reconcile SBAS records of expenditures to records maintained at the college by detail classification. The college does not utilize SBAS reports except to reconcile expenditures by total at fiscal year-end.

Timely reconciliations are important from the standpoint that copies of SBAS reports are used by other state agencies, the legislature, and others for comparative and analytical purposes, as well as in the budget process. Since the SBAS records and the college accounting records are never reconciled in detail, the SBAS records may not represent the actual expenditures made by the college and could result in misleading and erroneous use of data by others. The records maintained by the college and SBAS should be routinely reconciled and differences identified and resolved.

RECOMMENDATION

We recommend that the college establish a routine to reconcile its accounting records with those maintained by SBAS.

Accrual of Expenditures

Because they operate under SBAS, most state agencies accrue expenditures at the end of the fiscal year. With respect to expenditures, accrual refers to the fact that firm commitments or obligations to pay are recognized in the financial records even though payment has not been made. The purpose of

accrual is to earmark money to pay definite obligations and, in doing so, properly match expenditures with the proper fiscal period. Both CUBA and the AICPA guide specify that unpaid obligations should be accrued.

The college does not uniformly accrue expenditures. The college financial statements reflect both expenditures from "state" moneys and "local" moneys. Although the college generally accrues expenditures processed through SBAS, expenditures processed locally are not accrued and accruals are not depicted on the college financial statements. To illustrate this fact, an electric and natural gas bill for services for June, 1973 was paid from state and local funds. The bill for natural gas, amounting to $1,317, was properly accrued and paid through SBAS and charged to fiscal year 1972-73. The $2,015 electric bill was not accrued and was paid from "local" funds on July 23, 1973, and, as a result, was charged to fiscal year 1973-74. The college's use of the accrual system of accounting for "state" moneys and the cash system of accounting for "local" moneys results in financial statements that are inconsistent and less meaningful. We believe the accrual system of accounting is more meaningful and should be utilized by the college.

RECOMMENDATION

We recommend that the college utilize the accrual system for all accounting transactions.

PERSONAL SERVICES

Personal service expenditures at the college consist primarily of (1) salaries paid to full-time administrative and general personnel, instructional personnel, library staff personnel, and plant maintenance personnel; (2) salaries paid to students under the Student Help and Work Study programs; (3) salaries paid to student teacher supervisors, special lecturers, and to persons giving private music lessons; (4) salaries paid to college faculty members who teach

extension courses in addition to their regular courses; (5) salaries paid to administrative personnel for the college work study program. Because of the manner in which the college treats personnel benefit costs, the cost of personnel benefits such as retirement system contributions, workmen's compensation insurance, etc., are not included in total costs of personal services. During fiscal year 1972-73, personal service expenditures at the college were $1,134,760, which constitutes about 81 percent of the total college expenditures during the year.

Our review disclosed several reporting and administrative deficiencies with respect to personal services expenditures. The following discussion pertains to these problems.

Central Payroll System

The college currently is not under the state central payroll system, as are all other state agencies except university units. The college payroll, except for work study payments, is prepared at the college each month in the form of a claim document. The claim is sent to Helena by the college where it is processed through SBAS as an ordinary claim. The payroll warrants are prepared in Helena in the same manner as ordinary warrants and sent to the college business office for eventual distribution. Although the payroll claim is processed through SBAS, it is not included within the central payroll system which is separate from SBAS.

College administrative personnel stated that the college is not on the central payroll system because the central payroll office has not requested that they be placed on the system. They stated further that if the college payroll is put on the central payroll system, the entire payroll, including the Student Help and Work Study payrolls, should be placed on the system.

We observed a number of payroll procedures at the college which are undesirable and which would be corrected by the inclusion of the college in the central payroll system. These procedures are discussed in the following comments.

Payroll Processed Before the Fact

The payroll compensating regular full-time college employees for a month's service is prepared at the beginning of that month, sometimes as early as the first day of the month. Payroll warrants are prepared in Helena on the assumption that the employees will actually work the entire month.

In fiscal year 1972-73, several college employees received and cashed their payroll warrants prior to the end of the month. Certain business office employees consistently received and cashed their payroll warrants prior to completing the services for which they were being compensated.

In addition, the college prepared and distributed at the end of July, 1972, payroll warrants compensating instructors for the summer session ending August 11, 1972. In this regard, approximately $4,900 of compensation for August summer school instruction was paid in July.

The college does not adjust the payroll the following month for absences which occurred after the payroll was processed, but rather makes the adjustments by adjusting vacation leave or sick leave balances.

The undesirable aspects of this practice are that employees may be compensated for services not rendered and the actual cost of personal services is distorted from month to month simply because the payroll warrants are prepared and delivered before the services have been performed.

Salary payments should be based upon accurate and factual data and not assumptions made before the fact. In the case of payroll, this is customarily accomplished by means of a time lag from the end of the payroll period to the

time of payroll processing. Inclusion in the central payroll system would correct this situation in that the central payroll system operates on an after-the-fact basis.

Payroll Deductions

In addition to the payroll warrants, warrants for payroll deductions such as federal and state tax withholding, social security withholding, public employees' retirement withholding, teachers' retirement withholding, employee insurance withholding, along with related employers' contributions, are prepared in Helena and sent to the college. The college in turn prepares the appropriate reports and remits the warrants to the proper authorities, such as the Public Employees' Retirement Division, Teachers' Retirement Division, etc.

This process is costly and time-consuming. For example, the college remits their state tax withholding quarterly. The quarterly reports are accompanied by seven to nine separate warrants.

The college also prepared the payrolls for students paid from local funds. Checks for the payroll deductions associated with these payments are prepared at the same time the payroll checks are prepared and are held until their remittance is due. We noted that from eight to 17 separate checks have accompanied the quarterly state tax remittance to the Department of Revenue. Such a practice is not reasonable. Bookkeeping entries should enable one check to be written for this purpose.

Inclusion of the college in the central payroll system would eliminate these situations.

College Work-Study Payments

College Work Study (CWS) payments to students are financed from two sources: 80 percent is paid from a federal grant, and 20 percent is paid from state

appropriated funds. The federal moneys are kept and disbursed locally by the college. The college obtains the state's share of the CWS salaries, after each CWS payroll, by preparing a transfer warrant claim on the state treasury payable to itself for 20 percent of the amount paid to the work study students. These funds are deposited into a local account and are used to pay later work study salaries.

The college charges personal services expenses both when work study salaries are paid and when the state's share is received. The effect of this practice is that 20 percent of the work study payments are recorded twice as an expenditure. That is, a transfer of funds from the state treasury to the local work study account is classified as a personal services expenditure by the college when the actual expenditure had already been recorded when the payroll payment was made. The state funds received by the college are classified as a salary expenditure under "Operation and Maintenance of Physical Plant." As a result of this practice, personal services expenditures for fiscal year 1972-73 were overstated by $21,237 on the college records and financial statements.

Situations such as this, as well as those previously discussed, would be corrected if the college payroll were included in the central payroll system. This can be accomplished if both the college and the Department of Administration collaborate to design and implement the procedures necessary to accommodate the student employment program. Other than that, the payroll warrants are presently being prepared in Helena by the same data processing and administrative systems which handle the central payroll system for all other state agencies.

RECOMMENDATION

We recommend that the college consult with the Department of Administration and State Auditor to incorporate the college payroll within the central payroll system.

Internal Control Over Personal Services Expenditures

Internal control over personal services expenditures has several weaknesses. In the area of payroll expenditures there is general agreement that the following conditions should prevail if internal controls are to be considered adequate.

1. Valid authorizations are on file for all payroll initiations, changes, and terminations.
2. There is business paper support for all payments, including payroll claims and time cards and reports which support the amount of wages paid.
3. Special safeguards exist for termination notifications, payments to part-time employees, and unclaimed checks.

Based on the foregoing, there are a number of weaknesses in internal control of the college payroll.

Authorization of Salary Changes

One ideal condition of internal control is that valid authorizations are on file for all payroll initiations, changes, and terminations.

The payroll section at the college does not require written authorizations when salary payments are initiated, changed, or terminated. The salaries of two employees hired after the beginning of the fiscal year by the college were authorized orally. Salary changes for two persons on contract with the college were orally authorized, while the contracts were not amended. Salary increases for three non-academic employees of the college were orally authorized.

Oral authorization of initial salaries and later salary changes weakens internal control because mistakes could easily occur in the communication of the salary to be paid from the authorizing person to the payroll section.

RECOMMENDATION

We recommend that the college require written authorizations for all payroll initiations, changes, and terminations.

Extension Courses

Western Montana College paid $1,740 to staff instructors teaching extension courses away from the college. The extension classes are conducted by faculty members of the college who are willing to teach them. Although the instructors are regular faculty members, the fact that they are teaching an extension course is not covered by a contract. No document exists at the college authorizing these instructors to teach extension classes for additional compensation or approving the amount of compensation to be paid. The instructors engaged in extension courses submit a letter to the business manager stating the dates and the location of the extension class to obtain payment.

Although the amounts paid are included in the form W-2 reports at year-end, no deductions are taken from the gross amount paid to instructors teaching extension courses, nor are employee benefits figured on the gross amount earned. Business office personnel agreed that deductions should be made but expressed the belief that it is not done because the amounts would be insignificant.

The engagement of faculty members to conduct extension courses should be reduced to a written contract. The contract should specify the duties of the faculty member as well as the compensation arrangements. Inasmuch as an employer-employee relationship exists between the faculty members and the college, all amounts paid the faculty members should be subjected to the appropriate withholding and deductions.

RECOMMENDATION

We recommend that the college:

1. *Prepare written contracts for faculty members conducting extension courses.*
2. *Retain the appropriate payroll withholding and deductions on the salaries paid faculty members for extension courses.*

Student Employment Pay Changes

Students who work at the college sign a work authorization and employment information data card before obtaining student employment. This card serves as the work authorization, W-4 form, and rate of pay authorization. It is signed by the student and the student's work supervisor.

Students are granted pay rate increases after working a stated period of time at the same place of employment. The payroll section is notified of the increase when the rate of pay on the authorization card is scratched out and another rate inserted by the financial aid director at the college.

This is a poor practice from an internal control standpoint, because someone other than the financial aid director could obtain access to the cards and change the rates of pay. There is nothing on the cards showing that the director of financial aid authorized the original pay or initiated the pay rate change. Changes in pay status should be documented in writing. Prior pay rates should be preserved for subsequent review and should not be scratched out or erased. Changes should be initialed or signed by the person making the change.

RECOMMENDATION

We recommend that the college require that changes in student pay be documented and approved in writing.

Employer Insurance Premiums

As an employer, the college makes periodic premium payments for unemployment insurance and workmen's compensation insurance. The premium payments are based upon the wage and salary compensation paid to employees by the college.

Although the premium payments were made in conjunction with all of the various operations of the college, only a few operations have borne the cost of the premium payments. For example, workmen's compensation premiums of $5,769 were paid by the college during fiscal year 1972-73 for all employees, including those employed in the auxiliary enterprise operations; yet the premiums are paid from only two sources (state appropriations and the federal administration allowance) and the cost is recorded as an expense of only three programs (administration and general expense, instruction and departmental research, and operation and maintenance of physical plant). Other programs such as libraries and auxiliary enterprises were not charged for the expense of the premiums.

Similarly, unemployment insurance premiums of $2,793 were paid by the college during fiscal year 1972-73 on behalf of covered employees. These premiums were recorded as expense of only two programs (instruction and departmental research, and operation and maintenance of physical plant) even though the employees of other programs (administration and general, libraries and auxiliary enterprises) have the direct benefit of unemployment insurance coverage.

The end result of the foregoing practices is that the actual cost of some programs is overstated while the cost of other programs is understated. The amounts involved are not significant in themselves, but the fact that costs depicted as actual in the financial statements, are not actual is significant. This is particularly important where presumably self-supporting operations such as auxiliary enterprises are not charged with proper costs.

The college should allocate the employer insurance premium costs to the programs which benefit from the coverage, and the premiums associated with auxiliary enterprises should be recorded as an expense of and paid from auxiliary enterprise proceeds.

RECOMMENDATION

We recommend that the college allocate employer insurance premium costs to the benefiting programs and pay the premiums associated with auxiliary enterprises from the proceeds of auxiliary enterprise operations.

VACATION AND SICK LEAVE

The manner and amount of vacation and sick leave available to state employees is closely governed by state law and administrative regulations. These laws, contained in Title 59, R.C.M. 1947, basically define who is eligible for leave, the extent to which it can be earned and accumulated, and the general circumstances under which it can be used. The administrative regulations (Management Memos issued by the Department of Administration) provide specific guidance with respect to the use and documentation of leave.

We were advised that no formal policy has been prescribed by the Board of Regents with respect to leave, but that such a policy is under study. Pending the formulation and issuance of a formal policy, according to a representative of the Commissioner of Higher Education, the university units are expected to meet the general requirements of law with respect to vacation and sick leave.

There are a number of areas where the leave practices of the college are contrary to the requirements of law and regulation. The following is a summary of these areas:

1. Failure to keep annual and sick leave records for both non-teaching and teaching personnel.
2. Use of sick leave for purposes other than prescribed by statute and Department of Administration directives.
3. Granting of annual leave prior to entitlement and in excess of amounts earned.

The mere fact that the statutes specify the number of hours which may be granted requires that records be kept to assure that conditions of law are met. The college does not keep either annual or sick leave records for certain non-teaching positions, such as the president, business manager, registrar, director of information, dean of women, librarian, and assistant librarian. Further, there were no sick leave records kept for teaching personnel.

Section 59-1008(7), R.C.M. 1947, provides that the Department of Administration is responsible for the proper administration of sick leave and shall promulgate such rules as it deems necessary to achieve the uniform administration of sick leave and prevent its abuse. Management Memo 71-8, dated June 22, 1971, states that records of sick leave must be maintained in each agency and that these records should contain sufficient detail so that problems such as improper, repetitious, or excessive use of sick leave credits can be discovered and corrected.

As a general rule, the use of vacation and sick leave was poorly documented. Most sick leave requests by employees at the college do not indicate a reason for the absence. Some of the records which were available indicated that some employees were using sick leave for reasons which do not qualify; for example, to "take child for checkup."

In eight instances employees were granted annual leave prior to completing the required employment period, and in three instances employees were granted annual leave in excess of earned credits. Another instance of excess leave occurred because the college raised the earned leave credits prior to the completion of the necessary length of employment.

In addition to the foregoing, there were numerous clerical errors in posting leave credits earned and taken. In many instances the sick leave requests and time sheets indicate that vacation or sick leave was taken but the leave records were not adjusted. There is no system of reconciliation to verify the accuracy of postings with the time sheets. In five instances clerical errors resulted in incorrect final payments to terminated employees. The accuracy of these postings has the same degree of importance as computation of payroll amounts and accordingly deserve the same degree of control.

Until such time that a formal policy has been formulated and issued by the Board of Regents, the college should base its leave practices upon the guidance presently available. General compliance with the law and regulation will result in leave practices which are uniform and consistent for all employees.

RECOMMENDATION

We recommend that the college:

1. *Comply with the provisions of law and regulation governing the administration of leave until such time as the Board of Regents formulates a new policy.*
2. *Establish a reconciliation process to assure proper posting of leave credits earned and leave taken.*

PLANT, PROPERTY, AND EQUIPMENT

The college is responsible for custody and administration of fixed assets valued in excess of $5,900,000 but controls to assure proper use and disposition are virtually non-existent. Property disposed of is not deleted from the accounting records, and a physical count has not been taken since July, 1960. Consequently, the balances reported on the financial statements have little reliability.

The foregoing circumstances occurred partially because the college has not complied with the directives of the Department of Administration regarding property controls. Management Memo 70-17, dated June 26, 1970, prescribes the following elements of property control:

--Take a physical inventory of all fixed assets each fiscal year--preferably on June 30th.

--Retain inventory working papers for subsequent audit purposes.

--Record all fixed assets that: cost $100 or more; have an expected life of more than one year; and do not substantially change their identity through use.

--Record all changes in fixed assets between inventory dates.

The basic system of accountability for fixed assets at the college is subsidiary property records which were prepared from a physical count performed in July 1960. Since that date there has not been a count comparing actual property and equipment on hand with that shown on the listing. The 1960 property listing is adjusted annually with an appropriate addition to the accounting records for the current year capital asset acquisitions. However, these records are made meaningless by the failure of the college to record dispositions of assets and delete dollar values from accounting records. For example, the listing and financial statements included values for household furniture, office equipment and motor vehicles acquired in the early 1960's which could not be located at the time of our review and consequently, were presumed to have been disposed of.

The use of such a listing as a property control procedure is further negated due to the fact that there is no system of marking college property with identifying property number decals. Without identifying decals only that small portion of the property which has serial numbers can be positively identified. The listing also does not show the supposed location of the various equipment items. The lack of positive identification and locations renders the listing useless as a control device. The business office personnel were unsuccessful in locating a sampling of equipment items selected from the listing for the purpose of testing the usefulness of the college property control.

Two basic premises of sound property control are the assignment of custodial responsibility and the establishment and verification of accountability by persons separate from those having custody of assets. The assignment of responsibility assures that someone is responsible for protecting state property and is accountable should physical count reveal missing property. Unless the location of equipment is recorded, custodial responsibility cannot be determined. Periodic physical counts should be made to ascertain that property has not been stolen. Inadequacies observed in the college's property control procedures are of such magnitude that there is no assurance that state-owned property is in the custody of the college and that amounts reported in financial statements are reliable. The president of the college advised that improved property control procedures had not been implemented because he understood that the Department of Administration was going to establish state-wide accounting for fixed assets and that he did not believe there was any urgency to establish accountability over the fixed assets.

Other departures from Management Memo 70-17 observed during our examination included the failure to record a building valued at $890,748 in the accounting records and the inclusion of items of less than $100 in the accounting records.

Items of less than $100 may be subject to property control procedures but should be excluded from the accounting records financial statements as assets. We also noted the capitalization of building maintenance and administrative supply costs. Capitalization of these items is contrary to sound accounting principles.

RECOMMENDATION

We recommend the college:

1. *Implement a system of property control and accountability which will:*
    a. *Comply with the requirements of Management Memo 70-17.*
    b. *Provide for placement of an identification number decal on all equipment.*
    c. *Place custodial responsibility through identification of equipment locations.*
2. *Adjust the accounting records to reflect only that equipment which actually exists in the custody of the college.*

STUDENT FINANCIAL AID

There are several sources of financial aid available to students at the college. These assistance programs consist of grants, loans, and student employment. Comments pertaining to student employment programs are covered elsewhere in this report under personal services. Accordingly, the following comments pertain to grants and loans.

During fiscal year 1972-73, the college made grants and loans to students of $46,625 and $119,306 respectively. Nearly all of these amounts came from federal sources, such as Educational Opportunity Grants and National Direct Student Loans. Only $300 of the student loans were made through non-federal sources.

The college has a financial aid program administered by a full-time director as well as another full-time employee and a part-time employee. The federal programs are administered under the director's supervision. The college also has a short-term College Loan Fund which is not under the direction of the financial aid office, but rather is administered by the business office. We noted several weaknesses with the administration of the College Loan Fund and another program referred to as the United Student Aid loan program.

College Loan Fund

The college loan fund is used by the college to make short-term loans to students. The money in the loan fund comes from individual gifts and accumulated interest earnings. At June 30, 1973, the loan fund consisted of $20,819 in cash and $509 in loans outstanding.

Our analysis of the fund disclosed numerous weaknesses in internal control as follows:

1. Receipts are not pre-numbered and accountability cannot be established.
2. Deposits of receipts are not timely and intact.

3. A number of significant receipts were not recorded in the receipt book and, as a result, confusion existed as to whether the money had been deposited.

4. Payments of loans and records have been kept at the employee's residence rather than the college.

5. Counter checks are used to disburse funds from the local checking account.

6. The college policy of assessing six percent interest on loans has not been carried out.

7. The records do not illustrate that the loans were based on need or any other established criteria.

8. As previously stated, the college catalog states that these funds are to be used for short-term loans and normally repaid within the quarter. One loan made in 1970 was still outstanding at June 30, 1973, and a number of other loans were also old.

In addition to the foregoing weaknesses, the college loan fund is administered solely by the business manager of the college. Since the loan fund is a student aid program, it should be administered by the financial aids office rather than the business manager.

The fact that the loan fund has been administered by the business manager rather than the financial aids office may account for the fact that the resources appear to be underutilized, i.e., cash of $20,819 in contrast to loans of only $509. This resource should be administered by the financial aids office and be made available to students.

The financial aids office is cognizant of student needs and has the procedures necessary to measure student financial needs and select the appropriate financial assistance.

RECOMMENDATION

We recommend that the college transfer the administration of the college short-term loan fund to the financial aids office.

United Student Aid Loans

The united student aid loans consist of a student loan program operated by the United Student Aid Funds, Inc., a private corporation established on a nationwide basis to make loans to students. The loan program was established by donations from industry and individuals. Colleges and universities participate in the program by making matching contributions. Each $1,000 contribution by a college is matched by $24,000 from the loan fund, resulting in aggregate loan resources of $25,000 which is used to guarantee loans made to students by home-town banks. The college began participating in the program in the early 1960's and has deposited $7,100 with the loan fund as a reserve against bad debts on student loans.

Many of the college students using the program have repaid their loans, and in recent years use of the loan fund has become infrequent, probably because of the availability of lower cost federal assistance. As near as the financial aid director could determine, $4,100 of the original deposit of $7,100 is unneeded and could be returned to the college. The college has not determined what the status is of the remaining $3,000 on deposit, and none of the deposit is reflected on the college's financial statements.

The amount of money on deposit should be reflected in the college financial statements. The college should evaluate the merits of future participation in this program and, if appropriate, discontinue the program and seek refund

of the money on deposit with the United Student Aid Fund, Inc.

RECOMMENDATION

We recommend that the college:

1. *Show loan funds on deposit with the United Student Aid Fund, Inc., in the college financial statements.*
2. *Evaluate the merits of participation in the United Student Aid Fund loan program and seek refund of deposits to the extent appropriate.*

Athletic Scholarships

Athletic scholarships are provided at the college through an unusual arrangement involving the food and dining facility and the food service contractor. Food service at the college is provided by a private company which contracts with the college. Among other things, the contract stipulates that the food contractor will provide "board" scholarships to the college. "Board" scholarships refers to the provision of free meal privileges to certain students. The number of board or meal scholarships is determined by the number of boarding students, i.e., the number of students eating meals provided by the contractor. The value of each meal scholarship depends upon the number of days and board rate. During fiscal year 1972-73, the value of such scholarships was approximately $5,500. The contract delineates the following:

Number of Boarding Students	Number of Meal Scholarships
0-425	12
425-499	13
500-574	14
575 and over	One for each additional 100

The contract also stipulates that free meal privileges will be provided to the dean of women. In addition, the college administratively grants one

of the meal scholarships to a house mother who is required to dine with the students. Consequently, the number of meal scholarships available to the students is actually one less than the number stipulated by the contract.

As a practical matter, the food contractor bills the college for the meals provided to all students. The college deducts the value of the board scholarships based upon the number of boarding students and pays the bill, using the proceeds paid to the college by the boarding students. The amount deducted by the college is transferred from the boarding proceeds to the "Western Montana College Betterment Account" where it is used to provide fee waivers to athletes. This arrangement poses two questionable practices.

First of all, the revenues derived from the food service operation are dedicated by the bond indenture which constructed the dining facility. These revenues should be used to meet the operating expenses and the debt associated with construction of the facility. This is particularly important since the college has been unable to meet the debt requirements associated with the dining facility, a problem which is discussed in a following section of the report.

A second practice which is questionable is the fact that food service operation is being used to subsidize scholarships which are awarded to athletes. Those using the food service are, in effect, defraying the cost of the athletic scholarships inasmuch as the meals billed by the food contractor and deducted by the college are additional costs to the food contractor which must be recovered through charges to its customers, who are primarily the boarding students.

Because of the foregoing factors, provision in the food service contract which stipulates that the food contractor provide board scholarships should be deleted.

RECOMMENDATION

We recommend that the food service contract be amended to delete the provision for board scholarships.

BOND ISSUES

The college had two bond debt issues outstanding at June 30, 1973. One issue pertains to the construction of the student housing and dining facilities at the college. The bonds are revenue bonds which were issued in 1966 in the amount of $1,676,000. The bonds are held by the U. S. Department of Housing and Urban Development. At June 30, 1973, $1,311,000 of the bonds were outstanding, with retirement of all the bonds scheduled in the next 32 years.

The second bond issue pertains to the construction of the physical education complex. The bonds of this issue are also revenue bonds which were issued in 1967 in the amount of $636,000. The bonds are held by both the federal government and private interests. At June 30, 1973, $564,000 of the bonds were outstanding and all bonds are scheduled to be retired over the next 23 years.

Our review focused on the 1966 issue because it has never been audited in contrast to the 1967 issue which has been audited annually by an independent public accounting firm. Nevertheless, some of the following comments also pertain to the 1967 issue, particularly in statutory compliance area.

Financial Status

1966 Bond Issue

The 1966 bond issue is presently in financial jeopardy and, if the present trend continues, the college will be unable to meet the future financial commitments associated with the 1966 bond issue. The financial jeopardy stems from the fact that the revenues pledged by the college have been increasingly insufficient to meet the debt requirements of the bond issue. For example,

during fiscal year 1972-73, the principal and interest payments on the bonds amounted to $80,427. The revenues pledged to meet this payment amounted to only $29,455, or $50,972 short of the amount necessary. The deficit was made up by the college through the use of $32,082 in unpledged land grant income and $18,890 of the bond sinking fund reserve.

Aside from the fact that pledged revenues were insufficient, three other problems exist. First of all, the land grant income of $32,082 represented almost all of the unpledged land grant income. Although the land grant income is a reliable source of money to the college, it is not expected to increase substantially and is in itself insufficient to meet the debt payments. Consequently, the college cannot depend solely upon the land grant income to pay the debt requirements which are scheduled to be even higher in several years, due to the staggered maturity dates of the bonds.

Secondly, the college had to use $18,890 of the sinking fund reserve to meet the current debt payment. This is an adverse trend which further increased the deficit in the bond reserves which are required to be maintained under the indenture. The following table depicts the status of the various reserves as well as the overall reserve deficit at June 30, 1974:

	Balance of		
	Actual Reserves	Reserves Required	Reserve Deficit at June 30, 1974
Series A	$ 12,559	$ 38,375	$ 26,316
Series B	(3,144)	14,958	18,102
Series C	(4,775)	16,656	21,431
Series D	(10,091)	30,115	40,206
Repair and Replacement Reserve	121,880	90,474	(31,406)
Total	$116,429	$191,078	$ 74,749

Accordingly, the college cannot use the 1966 bond reserves as a source of money to pay the current debt without further increasing the deficit in the reserve balances required under the indenture. The college could meet this 1966 bond deficit by using the present $113,000 surplus associated with the 1967 bond reserves. However, use of 1967 reserve surplus is nothing more than a stop-gap measure which is one-time in nature and which could eventually have an adverse effect upon the financial stability of the 1967 bond issue.

Finally, the revenues presently pledged are inadequate largely because the source of these revenues is declining. The number of students at the college has declined substantially from 1,022 in 1966-67 to 721 in 1973-74. This trend is expected to continue. In this regard, it is projected by the Montana Commission on Post-Secondary Education that student enrollment at the college could decline to 386 students by 1981-82. Consequently, the pledged revenues will also decline since they are dependent upon student fees and the operation of the dining and residence facilities.

In summary, the 1966 bond issue is in financial jeopardy and future payments will require increasingly greater demands upon the general operating money of the college.

1967 Bond Issue

The 1967 bond issue is in much better financial condition than the 1966 issue. This is because (1) the total debt and debt service requirements are smaller, (2) the payment ability is not as directly dependent upon student enrollment, and (3) because one-half of the land grant income is pledged toward retirement of the debt.

In the first instance, the 1967 bond debt was originally $636,000 payable over a 30-year period, as compared to the 1966 issue of $1,676,000 payable

over a 40-year period. Furthermore, the annual principal payments run about $34,000 as compared to as much as $65,000 per year for the 1966 issue.

Secondly, the revenues pledged in conjunction with the 1967 issue include an activity fee assessed students as well as the revenue derived from the operation of the physical education facility. While the revenue from the operation of the facility would be affected by reductions in student enrollment, such effect is not crucial since one-half of the land grant income is also pledged. In this instance, the land grant income itself is almost sufficient to meet the annual principal payment on the issue and most likely will continue to be as sufficient in the future.

This does not mean that the land grant income alone is sufficient to meet the 1967 bond debt, since the interest costs must also be paid. Consequently, revenue generated by student enrollment and use of the facility is necessary or general operation money will have to be used by the college to defray debt service expenses.

Section 75-8503(2), R.C.M. 1947, requires that the facilities operate at a level which ". . . will ensure a reasonable net income over operating expenses and will provide for debt service and reserves." This is obviously not being done with respect to either bond issue since a substantial amount of the debt requirements are defrayed by the land grant income rather than operating revenue from the facilities.

Any attempt to increase the operating revenue would most likely necessitate an increase in the user fees charged students. The declining enrollment means that there are fewer students to pay the costs, hence, each student would have to pay a larger amount. However, raising the fees charged students would probably result in a further reduction in the student enrollment, which in turn would decrease revenue.

However, the fact remains, neither bond issue is currently paying its own way, and the 1966 issue is in financial jeopardy. To meet these problems, the college should (1) evaluate the present level of the fees pledged and determine whether increases are appropriate in comparison to actual costs and similar fees charged by the other units of the university system, and (2) consult with the Commissioner of Higher Education and the Board of Regents to identify the alternate avenues available to alleviate the situation.

RECOMMENDATION

We recommend that the college:

1. *Evaluate the fees presently pledged in payment of outstanding bond issues.*
2. *Consult with the Commissioner of Higher Education and the Board of Regents to identify the alternative avenues to meet the financial commitments associated with the bond issue.*

Annual Audits

The indentures underlying both 1966 and 1967 bond issues require annual audits. The 1967 issue has been audited each year by a public accounting firm. However, the 1966 issue has not been audited since its inception.

The 1966 bond indenture requires the Board of Regents to furnish an audit report to the trustee and bondholder within 90 days of the close of each fiscal year. The audit can be done either by an independent public accountant or a state auditing official. These audits have not been done.

College personnel advised us that although the bondholders have requested copies of the audits as stipulated in the indenture, college personnel deferred the requests by advising them that they were waiting to be audited. However, since 1966 neither the college nor the board contracted for the audits nor were such bond audits requested of the Office of Legislative Auditor.

We believe the bond accounts should be audited on an annual basis in compliance with the bond indenture. The audits are required by the indenture and are a necessary tool for the bondholder as well as the board and other state agencies.

RECOMMENDATION

We recommend that the college contract with an independent public accountant to audit the 1966 bond accounts in accordance with the bond indenture.

FINAL COMMENTS

We have reviewed the comments and recommendations contained in this report with the president of Western Montana College and the Commissioner of Higher Education. The portion of the report dealing with the Statewide Budgeting and Accounting System was also discussed with the director of the Department of Administration.

The full text of the college and Department of Administration replies are included as the last section of this report. No reply was received from the Commissioner of Higher Education. In those instances where the officials raised issues warranting clarification, we have inserted appropriate comments.

The cooperation and assistance provided by the foregoing officials and their staff are appreciated.

Respectfully submitted,

Morris L. Brusett

Morris L. Brusett
Legislative Auditor

November 7, 1974

FINANCIAL STATEMENTS

WESTERN MONTANA COLLEGE

BALANCE SHEET

June 30, 1973

ASSETS		LIABILITIES	
EDUCATIONAL AND GENERAL FUNDS			
State Appropriation	$ 339.43		$
Cash On Hand & Deposit	1,804.66	Other Reserves	2,144.09
TOTAL	$ 2,144.09	TOTAL	$ 2,144.09
AUXILIARY ENTERPRISES			
Cash on Hand & Deposit	$ 110,759.93	Other Reserves	$ 110,759.93
STUDENT AID			
Cash on Hand & Deposit	$ 10,207.00	Other Reserves	$ 10,207.00
STUDENT LOAN FUND			
Cash on Hand & Deposit	$ 44,773.00		
Loans Receivable	488,975.00	Loanable Principal	$ 533,748.00
TOTAL	$ 533,748.00		$ 533,748.00
PLANT FUNDS			
Maint & Equipment Funds	$ 90,474.00		
Debt Retirement Funds	220,343.60	Other Reserves	$ 310,817.60
TOTAL FUND	$ 310,817.60		$ 310,817.60
Inventory, Physical Plant			
Fixed Assets:		Investment in Plant	
Land & Bldgs.	$4,853,588	Bonds Payable	$1,875,000.00
Equipment	1,051,056	Net Investment	4,029,614.77
TOTAL	$6,215,432.37	TOTAL	$6,215,432.37
AGENCY FUNDS			
Cash on Hand & Deposit	$ 22,396.99	Other Reserves	$ 22,396.99

WESTERN MONTANA COLLEGE

EDUCATIONAL AND GENERAL FUNDS

SUMMARY OF OPERATIONS

FISCAL YEAR 1972-73

Schedule A

CURRENT INCOME		
State Funds		
General Funds		$ 713,640.00
Millage Fund		290,000.00
Total State Funds		$1,003,640.00
Student Fees and Collections		
Student Fees	$218,281.89	
Miscellaneous Collections	13,599.82	
Total Fees and Collections		231,881.71
Federal Government		125,640.05
Private Gifts and Grants		2,700.00
TOTAL CURRENT INCOME		$1,363,861.76
FUNDS FROM PRIOR PERIODS		
Carryover	$ 46,922.51	
Less Reversions	576.12	
Plus Encumbrance Addition	37.87	46,384.26
TOTAL FUNDS AVAILABLE		$1,410,246.02
CURRENT EXPENDITURES		$1,408,101.93
UNENCUMBERED BALANCE FORWARD		$ 2,144.90

WESTERN MONTANA COLLEGE

EDUCATIONAL AND GENERAL FUNDS

DETAIL OF STUDENT FEES AND COLLECTIONS

FISCAL YEAR 1972-73

Schedule A-1

I Student Fees		
Regular Academic Year		
Registration	$ 30,529.00	
Incidental	138,953.06	
Non-Resident	22,874.67	
Total Fees, Reg. Academic Year		$192,356.73
Summer Session		
Registration	5,206.00	
Incidental	20,719.16	
Total Fees, Summer Session		25,925.16
II Miscellaneous Collections		
Extension	5,688.00	
Admission	3,190.00	
Late Registration	314.00	
Library Fines	390.00	
Parking Fines	70.00	
Veterans Filing	246.00	
Miscellaneous	3,701.72	
Total Misc. Collections		13,599.82
TOTAL COLLECTIONS		$231,881.71

III Waivers	Number	Equivalent Cost
Registration	179.5	$ 2,692.50
Incidental	179.5	13,462.50
Non-Resident	66.0	17,160.00
TOTAL		$ 33,315.00

WESTERN MONTANA COLLEGE
EDUCATIONAL AND GENERAL FUNDS
SUMMARY OF EXPENDITURES
BY PROGRAM AND OBJECT
FISCAL YEAR 1972-73

Schedule B

PROGRAM	PERSONAL SERVICES	OPERATING SUPPLIES & EXPENSES	EQUIPMENT & LIBRARY BOOKS	EXPENDITURES BY PROGRAM
Administration and General Expense	$ 160,620.90	$ 36,178.04	$ 1,893.12	$ 198,692.06
Instruction and Departmental Research	687,430.08	108,218,14	4,027.60	799,765.82
Libraries	57,573.04	7,953.78	33,240.78	98,767.60
Operation & Maintenance of Physical Plant	227,396.48	79,567.06	1,484.56	308,448.10
Total Resident Instruction	$1,133,020.50	$231,917.02	$40,646.06	$1,405,583.58
Extension & Public Service	1,740.00	778.35		2,518.35
TOTAL EXPENDITURES BY OBJECT	$1,134,760.50	$232,695.37	$40,546.06	$1,408,101.93

EXHIBIT E

WESTERN MONTANA COLLEGE
AUXILIARY ENTERPRISES
FUNDS AVAILABLE AND EXPENDITURES
FISCAL YEAR 1972-73

Schedule C

	Residence Hall	Food Service	Family Housing	Health Service	Student Union	Room Deposit
RECEIPTS						
Student Fees				$16,840.68		
Sales and Service	$ 67,496.18	$140,166.55	$14,231.13		$ 2,190.09	$ 3,002.00
Interest Income						
Investments						
Transfer from other Aux. Ent.					3,341.33	
TOTAL RECEIPTS	$ 67,496.18	$140,166.55	$14,231.13	$16,840,68	$ 5,531.42	$ 3,002.00
Carryover	1,377.34	18,237.87	9,104.00	10,505.63	799.18	7,643.64
TOTAL FUNDS AVALIABLE	$ 68,873.52	$158,404.42	$23,335.13	$27,346.31	$ 6,330.60	$10,645.64
EXPENDITURES						
Personal Services	$ 45,846.11	$ 16,959.74	$ 1,620.41	$ 1,667.04	$ 1,008.03	
Operating Sup. & Expense	31,923.15	118,178.30	6,003.00	19,553.50	5,512.15	
Capital Improvements	3,147.50					
Transfer from other Aux. Ent.						
Refunds						$ 3,186.60
TOTAL EXPENSES	$ 80,916.76	$135,138.04	$ 7,623.41	$21,220.54	$ 6,520.18	$ 3,186.60
BALANCE	(12,043.24)	23,266.38	15,711.72	6,125.77	(189.58)	7,459.04
Transfer to Plant Funds						
BALANCE FORWARD	$(12,043.24)	$ 23,266.38	$15,711.72	$ 6,125.77	$ (189.58)	$ 7,459.04

Schedule C (Continued)

	Interest & Income	Athletics	Textbooks	Building Fee	Deferred Payments	Total
RECEIPTS						
Student Fees		$ 24,291.45	$28,640.33	$44,893.79		$144,666.25
Sales and Service					$1,683.09	228,769.04
Interest and Income	$68,177.60					68,177.60
Investments			5,054.33			5,054.33
Transfer from other Aux. Ent.						3,341.33
TOTAL RECEIPTS	$68,177,60	$ 24,291.45	$33,694.66	$44,893.79	$1,683.09	$420,008.55
Carryover	877.23	(10,559.17)	42,411.21	5,114.75	2,118.35	87,630.03
TOTAL FUNDS AVAILABLE	$69,054.83	$ 13,732.28	$76,105.87	$50,008.54	$3,801.44	$507,683.58
EXPENDITURES						
Personal Services			$ 4,119.25	$ 2,614.04		$ 73,834.62
Operating Sup. & Expense		$ 42,410.19	19,636.36	1,392.91		226,609.56
Capital Improvements						3,147.50
Transfer from other Aux. Ent.				3,341.33		3,341.33
Refunds						3,186.60
TOTAL EXPENSES		$ 24,410.19	$23,755.61	$ 7,348.28		$310,119.61
BALANCE	$69,054.83	$(10,677.91)	$52,350.26	$42,660.26	$3,801.44	$197,518.97
Transfer to Plant Funds	62,234.82			24,524.22		86,759.04
BALANCE FORWARD	$ 6,820.01	$(10,677.91)	$52,350.26	$18,136.04	$3,801.44	$110,759.93

WESTERN MONTANA COLLEGE

STUDENT AID

FISCAL YEAR 1972-73

Schedule D

RECEIPTS:

Federal Government	$153,513.00	
Other Receipts	56,390.00	
TOTAL RECEIPTS	$209,903.00	
Carryover	6,841.00	
TOTAL AVAILABLE FUNDS		$216,744.00

DISBURSEMENTS:

Economic Opportunity Grants	$ 46,625.00	
Work Study	130,659.00	
Scholarships & Fellowships	29,253.00	
TOTAL DISBURSEMENTS		206,537.00
BALANCE FORWARD		$ 10,207.00

LOAN FUNDS

INSTITUTIONAL:

Current Income	$ 1,254.84	
Carryover	19,862.97	
TOTAL AVAILABLE FUNDS	$ 21,117.81	
DISBURSEMENTS	300.00	
BALANCE FORWARD		$ 20,817.81
Loans Outstanding June 30, 1972	$ 709.20	
New Loans	300.00	
Less Repayments	(500.00)	
LOANS OUTSTANDING JUNE 30, 1973		509.20
TOTAL INSTITUTIONAL LOAN FUNDS		$ 21,327.01

NDEA:

Current Income	$132,991.00	
Carryover	13,540.00	
TOTAL AVAILABLE FUNDS	$146,531.00	
DISBURSEMENTS	122,576.00	
BALANCE FORWARD		$ 23,955.00
Loans Outstanding June 30, 1972	$426,224.00	
New Loans	119,006.00	
Repayments & Collections	(56,764.00)	
LOANS OUTSTANDING JUNE 30, 1973		$488,466.00
TOTAL NDEA LOAN FUND		$512,421.00

WESTERN MONTANA COLLEGE

PLANT FUNDS

FUNDS AVAILABLE AND EXPENDITURES

FISCAL YEAR 1972-73

Schedule E

RECEIPTS

Student Fees		$ 24,524.22
Interest & Income		62,234.82
Investment Earnings		14,121.61
TOTAL RECIEPTS		$100,880.65
Carryover		327,186.95
TOTAL FUNDS AVAILABLE		$428,067.60

DISBURSEMENTS

Principal Payments, Bond Issues	$ 54,000.00	
Interest Payments, Bond Issues	63,250.00	
TOTAL DISBURSEMENTS		117,250.00
BALANCE FORWARD		$310,817.60
Retirement of Indebtedness Funds	$208,869.85	
Maintenance & Equipment Reserves	90,474.00	
State Treasury Fund	11,473.75	$310,817.60

OTHER FUNDS

AGENCY FUNDS

Schedule F

Receipts	$ 73,921.54
Carryover	33,454.26
TOTAL FUNDS AVAILABLE	$107,375.80
DISBURSEMENTS	84,978.81
BALANCE FORWARD	$ 22,396.99

AGENCY REPLIES

WESTERN MONTANA COLLEGE
OF THE
MONTANA UNIVERSITY SYSTEM
DILLON

OFFICE OF THE PRESIDENT

October 25, 1974

2 8 1974

Mr. Morris L. Brusett
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Mr. Brusett:

Enclosed you will find the two copies of your final report on the audit of Western Montana College for the fiscal year ended June 30, 1974.

Also attached is our response in the manner you suggested in your letter of October 17, 1974.

Sincerely,

James E. Short

James E. Short
President

JES:vs

... SYSTEM CONSISTS OF UNIVERSITY OF MONTANA AT MISSOULA, MONTANA STATE UNIVERSITY AT BOZEMAN, MONTANA COLLEGE ... AND TECHNOLOGY AT BUTTE, WESTERN MONTANA COLLEGE AT DILLON, EASTERN MONTANA COLLEGE AT BILLINGS AND NORTHERN MONTANA COLLEGE AT HAVRE.

RECOMMENDATION - Page 10

We recommend that the college consult with the Department of Administration in order to devise an accounting system for the college within the Statewide Accounting and Budgeting System.

Response

The accounting system was again revised to a certain extent on July 1, 1974 in accordance with the manual of the Joint Accounting Group (JAG). Approximately 99% of all educational and general funds now are processed through SBAS leaving only such funds as auxiliary and agency funds in local accounts. There have been many discussions on the above with the Department of Administration, the former Executive Secretary and present Commissioner of Higher Education. These discussions will continue.

RECOMMENDATION - Page 12

We recommend that the college consult with the state Board of Investments to establish an investment program for the college.

At our meeting with the representatives of the Board of Investments in 1973, we were advised as to the method of the program but were informed that they were not tooled up for input from the University System. We had never received any confirmation from them, but will contact the board relative to establishing investments through them.

RECOMMENDATION - Page 13

We recommend that the college discontinue the practice of making temporary loans to employees from cash on hand and deposit all checks as soon as practicable.

We have now worked out a travel advance plan through the revolving funds.

RECOMMENDATION - Page 14

We recommend that the college establish accounts receivable records to account for and control checks returned by banks.

The report does not indicate that the 57 checks were immediately redeposited and cleared through the banks. None of these checks have been held by the college. In the event that we have any returned checks which do not immediately clear, we will establish proper accounting records.

RECOMMENDATION - Page 15

We recommend that the college establish procedures to insure that the college deposits in local bank accounts are properly collateralized as required by Section 79-301, R.C.M. 1947.

Concur. Will be done immediately.

RECOMMENDATION - Page 16

We recommend that the college deposit revenue generated from deferred payment services charges in the student fee account in the state treasury.

This will be discussed with the Commissioner of Higher Education, particularly in the interest of uniformity in the system.

RECOMMENDATION - Page 17

We recommend that the college:

1. Discontinue deferring student fee collections for periods in excess of Board of Regents policy.

2. Refer students who are unable to make deferred payments to the financial aids office.

The audit report does not mention that these uncollected fees go back to 1970. Of the $5,571 mentioned, only $27.50 are actually uncollected student fees, the balance is in other charges such as room and board. We are using several methods to enforce collection and a good portion of this money has been repaid as of this date.

There are a number of problems which have not been considered in the report. We have several students who have deferred fees, have stayed in school past the refund date of three weeks and then have dropped school or have simply vanished. This highly complicates the collection process. For the period above, the uncollected rate is approximately 2/10 of 1 percent, which we feel is excellent.

Students who remain in school and have difficulty with payments will be referred to the office of financial aids but it also must be acknowledged that there will be some students in the most difficult straits from the so-called "middle-income" bracket who will be unable to qualify for assistance from this source. For these students, other arrangements must be worked out.

AUDITOR'S COMMENTS

The Board of Regents' policy governing the deferment of student fees pertains to all fees customarily collected from students at registration, including other charges such as room and board.

Accounts Receivable - Page 17

Although no recommendations were made on this item, we believe the intent was to have control accounts established and documented on our financial records. The former had been done and the latter will be done.

We disagree with the second paragraph in that control sheets have been maintained and can be checked against the individual cards. These control sheets were shown to the auditors.

RECOMMENDATION - Page 22

> We recommend that the college revise its accounting and reporting practices in accordance with guidelines prescribed by the College and University Business Administration manual and the AICPA guide for Audits of Colleges and Universities.

In general we concur, however the accounting system now has been revised to a certain extent to follow the new manual of the Joint Accounting Group (JAG) which was published in March, 1974.

RECOMMENDATION - Page 23

> We recommend that the college institute the procedures necessary to establish accountability over the activities of the bookstore to safeguard the assets.

"Bookstore" in itself is a misnomer. Western operates under the textbook rental system which is entirely under the control and direction of the college. The bookstore indicated in the report is completely a student function which was established by the Associated Student Central Board. The manager is hired and is responsible directly to the Central Board. The only items handled are miscellaneous and novelty items such as T-shirts, candy, pennants, some art supplies, greeting cards and a few paperback books. The students order their own supplies independent of the college and the Central Board has underwritten the store in that student fees for activities will be used entirely to take care of any losses and profits would also go to the students. We feel our accountability for this store would be no different than our accountability for dances, movies or any other functions directly under student supervision.

AUDITOR'S COMMENTS

The college has nearly total fiscal responsibility for the bookstore operations. The college does all of the accounting, maintains custody of the money, and pays all the bills, including the payroll for the bookstore. For these reasons alone, we believe the college should insist that procedures are instituted to insure proper accountability over the bookstore operations.

RECOMMENDATION - Page 24

We recommend that the college establish a routine to reconcile its accounting records with those maintained by SBAS.

This has been done.

RECOMMENDATION - Page 25

We recommend that the college utilize the accrual system for all accounting transactions.

This will be done.

RECOMMENDATION - Page 30

We recommend that the college consult with the Department of Administration and State Auditor to incorporate the college payroll within the contral payroll system.

This recommendation has been discussed in the past and will be again discussed with the Commissioner of Higher Education.

RECOMMENDATION - Page 31

We recommend that the college require written authorization for all payroll Initiations, changes and terminations.

We concur.

RECOMMENDATION - Page 32

We recommend that the college:

1. Prepare written contracts for faculty members conducting extension courses.

2. Retain the appropriate payroll withholding and deductions on the salaries paid faculty members for extension courses.

There have been no extension courses since the audit period ending June 30, 1973 and none are anticipated in the near future. We will follow the recommendations if these courses are resumed.

RECOMMENDATION - Page 32

We recommend that the college require that changes in student pay be documented and approved in writing.

This is now being done.

RECOMMENDATION - Page 34

> We recommend that the college allocate employer insurance premium costs to the benefiting programs and pay the premium associated with auxiliary enterprises from the proceeds of auxiliary enterprise operations.

This is now being done.

RECOMMENDATION - Page 37

> We recommend that the college:
>
> 1. Comply with the provisions of law and regulation governing the administration of leave until such time as the Board of Regents formulates a new policy.
>
> 2. Establish a reconciliation process to assure proper posting of leave credits earned and leave taken.

We are working on the compliance with the above recommendation. The reconciliation process has been established.

RECOMMENDATION - Page 40

> We recommend the college:
>
> 1. Implement a system of property control and accountability which will:
>
>   a. Comply with the requirements of Management Memo 70-17.
>
>   b. Provide for placement of an identification number decal on all equipment.
>
>   c. Place custodial responsibility through identification of equipment locations.
>
> 2. Adjust the accounting records to reflect only that equipment which actually exists in the custody of the college.

As could be seen during the audit, the college is operating with a minimum of staff. Just before Management Memo 70-17 was produced, in a discussion with the Department of Administration we announced our intentions to try to perform a complete inventory during the summer as we had then a surplus of work-study money and could make this an excellent summer project. We were advised at that time that we were to wait for instructions. Management Memo 70-17 states "Comprehensive instructions for property management are in the process of being prepared." We waited for a certain period for these additional instructions as there are a number of "gray" areas in capital items. Since that time, we have had neither personnel nor funds to properly make an inventory. It is hoped that this can be accomplished in the near future.

RECOMMENDATION - Page 43

We recommend that the college transfer the administration of the college short-term loan fund to the financial aids office.

Administrative re-assignment will be made.

RECOMMENDATION - Page 44

We recommend that the college:

1. Show loan funds on deposit with the United Student Aid Fund, Inc., in the college financial statements.

2. Evaluate the merits of participation in the United Student Aid Fund loan program and seek refund of deposits to the extend appropriate.

This assignment has been delegated and when determination is completed, the status will be reflected in the records.

RECOMMENDATION - Page 46

We recommend that the food service contract be amended to delete the provision for board scholarships.

These recommendations are under study and will be considered with the beginning of the next contract year.

RECOMMENDATION - Page 50

We recommend that the college:

1. Evaluate the fees presently pledged in payment of outstanding bond issues.

2. Consult with the Commissioner of Higher Education and the Board of Regents to identify the alternative avenues to meet the financial commitments associated with the bond issue.

These will be considered.

RECOMMENDATION - Page 51

We recommend that the college contract with an independent public accountant to audit the 1966 bonds accounts in accordance with the bond indenture.

In accordance with the recommendation the bond issues are now in the process of audit by a local C.P.A. firm.

STATE OF MONTANA

DEPARTMENT OF ADMINISTRATION

HELENA 59601

THOMAS L. JUDGE, Governor

DOYLE B. SAXBY, Director

October 31, 1974

NOV 4 1974

Mr. Morris L. Brusett
Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, Montana 59601

Dear Morris:

Re: University System Accounting

In response to your letter of October 25, 1974, I have briefly outlined the Department of Administration's current thinking as to the University System using the Statewide Budgeting and Accounting System.

Montana now is recognized as having one of the best State accounting systems in the nation. Unfortunately, the University System is not using the system to its fullest extent. As a result, Montana's Annual Financial Report, prepared by the Department of Administration, does not include about half of the University System's financial activity. Therefore, Legislators, taxpayers, and students of government never get a true perceptive of the cost of higher education in Montana when reviewing the State's Annual Financial Report. This is unfortunate!

The State's accounting system contains about half of the University System's expenditures. Only appropriated funds that are processed through the State Treasurer are included. "Local Funds" which are generated on campus from such sources as auxilliary enterprises, interest income, and cost reimbursements, are not included.

The Department of Administration recognizes the dual needs of the University System. They must report their financial transactions in compliance with State statutory laws and in accordance with the standards set forth by the American Council on Education. Unnecessary duplication of records can be avoided by integrating the requirements of the two systems within the Statewide Budgeting and Accounting System. In this way, the original data need be handled only once. If the information is correctly coded in the first instance, many of the reporting requirements of the two systems can be automatically produced from the master file as needed without having to maintain duplicate records. In addition, there is less likelihood of errors and variances in reports if all the data comes from a common data base.

Some people have suggested creating a new statutory fund structure to handle the University System appropriations and expenses. This would be a serious mistake. Presently, all State agencies are required to submit their budget requests and expenditure claims in a uniform manner using the statutory fund structure. Legislators, State Officials and the general public understand the present system. If the University System were to use a different system, financial data from the two systems would have to be merged before consolidated financial reports could be prepared for the State. In addition, the budget process would be more complicated and confusing if two fund structures were in use.

The American Council on Education's 1968 publication entitled College and University Business Administration (CUBA) has been recognized as the authority for collegiate accounting. The American Institute of Certified Public Accountants published an audit guide entitled Audits of Colleges and Universities in 1973, that generally endorsed the CUBA publication, with some reservations. More recently, both CUBA and the audit guide have come under some criticism.

An article entitled Collegiate Accounting Needs Re-Evaluation, in the December 1973 The Journal of Accountancy, contains the following quotation:

> "If collegiate administrators are to disseminate accounting data, I believe that the data should be presented in an understandable fashion. This is not the case. The grand design for collegiate accounting simply has not kept pace with changing times."

Another criticism of CUBA and the audit guide, is that they do not adequately recognize the unique requirements of publicly-supported institutions of higher education that must adhere to State laws and are accountable to the Legislature and the public.

The Statewide Budgeting and Accounting System is designed around the statutory treasury fund structure (Section 79-410, R.C.M. 1947). It is a comprehensive system and flexible enough to accommodate most of the University System's needs with slight modification. New sub-systems can be designed to meet specific University System requirements, if required. In some cases, it may be better to address special problems at the local level.

It is generally recognized that the accounting procedures now being used by the various units of the University System are not uniform. If the University System adopted the Statewide Budgeting and Accounting System, uniform procedures could be installed and still accommodate the specific requirements of the various units. If the State system is not used, much time and expense must be incurred to design and implement a new uniform accounting system for the University System.

The Statewide Budgeting and Accounting System has never been given a chance to prove whether or not it can work for the University System. In May 1973, and again in April 1974, the Department of Administration recommended, without success, that a pilot program be established in one of the smaller units of the University System. We still believe our initial efforts should be directed towards a pilot program in one of the smaller units. After any technical problems have been resolved, further efforts should be devoted to the more complicated requirements of the larger units. In this manner, immediate help can be provided to the smaller units that do not now have a sophisticated, automated, in-house system. The larger units can be phased in more slowly and in an orderly manner without causing havoc to either the State system or the University System. Incidently, the Montana Society of Certified Public Accountants concurred with this suggestion in their May 24, 1974, letter to the Commission on Post-Secondary Education.

Sincerely,

Doyle B. Saxby

Doyle B. Saxby
Director

DBS:bc